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17 February 1955

MEMORANDUM FOR: [REDACTED]

FROM: [REDACTED]

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SUBJECT: [REDACTED]

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Answers to Queries on their Study of the
National Income of the USSR

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1. On 22 November 1954, [REDACTED] was informed by [REDACTED] that a number of your office was seeking information study on National Income in the USSR.

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2. Please find attached a copy of the note entitled "Internal Queries" which was given to [REDACTED] on your behalf and a copy [REDACTED] answers to these internal queries.

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Encl.

INTERNAL SECURITY

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2. Soviet reports give a 130% increase in machine construction in 1950 over 1940 while the original plan called for about 100% increase. We know that the Soviets underfulfilled locomotives, railway cars, tracks, tractors, and perhaps even machine tools and metallurgical equipment by lesser amounts. The question therefore arises of how the increase was achieved. We have been speculating as to the possibility that such items as radar equipment and jet planes - which probably would have been valued at very high 1946/47 prices and for which original costs estimates were probably very poor owing to lack of familiarity with these items - might have accounted for much of this overfulfillment. We would be interested in ascertaining [REDACTED] on this.

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3. We would be interested in ascertaining whether [REDACTED] Soviet military budget increases in 1949-52 (especially after 1949 when price changes may have had a very significant effect) primarily reflect the delivery of military and items which had been developed, tested, and programmed previously. It would, therefore, follow that external events such as the Korean war had very little relation to the defense budget increases in those years. Or does [REDACTED] that external events were primarily responsible for the increases.

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4. There is reason to believe that by 1950 the Soviets had sufficient locomotives to make the necessary freight tonnage for several years to come so that they could afford the drop in production that apparently occurred for 1951-53. What, [REDACTED] prompted the planners to choose this course of action? Shortages of inputs? Need to utilize the capacity for other items - if so, civilian or military items?

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5. We would be interested in [REDACTED] the following line of reasoning concerning the effect of agriculture stagnation on general economic development.

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- The bulk of savings available for investment and defense is represented by profits (and profits taxes) and turnover tax.
- Since 1946 the gross receipts from the turnover tax have remained relatively constant at about 200-250 billion rubles.
- Most of the turnover tax comes from food and consumer goods made from agricultural raw materials.

- The net contribution of the agricultural sector to gross turnover tax has decreased somewhat over the years because:
 - A. The price reductions have been concentrated on these items;
 - B. Purchases have shown constant, although still low;
 - C. The marketed share of agricultural products has shown little or no increase since 1950;
 - D. The cost of agricultural production to the state, principally the sum of investment and operating expenses of the MSA have increased throughout the postwar period;
- Therefore, agriculture with half the working population has been contributing a constant or decreasing investment surplus while the economy as a whole has expanded enormously. This constitutes a serious problem for long run growth of general economy.

Answers to Informal Questions**1. Producers' Goods Price Index**

The index used in the national income study is highly approximate in character and is not strictly a producers' goods index, but an index appropriate to the "accumulation fund" which includes some consumers' goods and also producers' goods used by collective farms which are relatively highly priced. An upward shift in the figures has been made to take this into account. The matter is further discussed in an article by A. Nove published last year in the Review of Economics and Statistics.

2. As regards the increase in machine construction in 1950 over 1949, we think that the most likely solution to the problem is the following. There is some confusion over the translation of the Fourth 5-Year Plan which we think should read: "In the field of machine building the production of equipment in 1950 is to be twice the pre-war level". (Russian text let. of the 18th March 1946. Plan Khos No. 2 of 1946; page 17). The English translation, published in London, "By 1950 this industry shall have doubled its output as compared with pre-war" is incorrect. Thus the 200 per cent, refers only to the production of equipment and not to machine building as a whole, whose 1950 objective has never been disclosed. The above interpretation was suggested to us by the Document Research Section in Germany and they agree that machine building covers armaments as well as civil production. A further distorting factor, of course, is the use of the 1926-27 price weights.

3. So far as the increase in the Soviet military budgets for 1949 and 1950 were concerned, we have little doubt that the bulk of the increases reflect deliveries of armaments planned previously. However, there certainly seems to have been some increase in expenditure on ammunition and motor vehicles brought about by the Korean War. Some of the increases in expenditure on aircraft and specially subsonic guns were also brought about by "external events", but this would have affected mainly the years 1950 and 1951. The increases in expenditure on ship-building are probably of a much older plan.

4. Our estimate of locomotive production in the years 1945 to 1951 is as follows:

Soviet Main-line Locomotive Production, 1945-1951

	1945	1946	1947	1948	1949	1950	1951	1952
Steam locomotives	11	130	1,400	1,400	1,400	1,400	1,400	1,400
Diesel-electric "	-	1	25	70	130	200	300	400
Electric "	-	-	30	50	120	150	150	200
Total	11	131	1,455	1,520	1,650	1,750	1,850	2,000

Steam Locomotives

It seems that the fall in the production of steam locomotives in 1950 to 1952 was connected with a decision to convert certain locomotive works to the construction of heavy machinery, because plans to create certain heavy engineering works were behind schedule. The conversion of at least one steam locomotive works to armament production was also a contributing factor. As far as is known the Gorkiy Locomotive Works and Shigard stopped producing locomotives in 1951 probably to provide capacity for a submarine building programme.

Diesel-Electric Locomotives

The fall in the production of these in 1950 to 1952 was probably due to the introduction of a new type (the TE-2) in June 1950. The one works building it at Kharkov also builds medium tanks, but there is no evidence that tank output have increased in 1950.

Rise in Production in 1953

We do not yet know how the U.S.S.R. managed to achieve such a large increase in steam locomotive production between 1952 and 1953. But we suggest that it is probable that by 1953 the need for more locomotives had once more become acute because of the new lines being built. Moreover, certain heavy engineering works had just been completed and this permitted a transfer of heavy machine construction from the locomotive works to the new factories.

The reasoning suggested for the stagnation of agriculture is not in our opinion convincing. The unchanged level of turnover taxes may well be due to increases in other sources of revenue and to the effect of falling price level. It is true that price cuts of food since 1947-1948 have reduced their contribution to the turnover tax, but this reduction may not be as great as appears, because the marketed share of agricultural products has risen considerably since 1950 and the reduction in tax per unit has been partially offset by increased volume. Until 1953-1954 the increase in agricultural expenditure by the State was far in excess and the increase in spending on the M.T.S. was surely far outweighed by increases in receipts in kind for work done by the M.T.S. However, the 1953-1954 reforms have changed things substantially and primarily by diverting so many resources to agriculture.

We agree, of course, that the failure of the agricultural sector to keep up with the non-agricultural sector constitutes a severe drain on the economy of the Soviet Union.